

SOUTH END
AVENUE



NEW YORK
STATE OF
OPPORTUNITY

Battery Park
City Authority

Liberty Court Ground Rent Briefing

July, 2023

Agenda

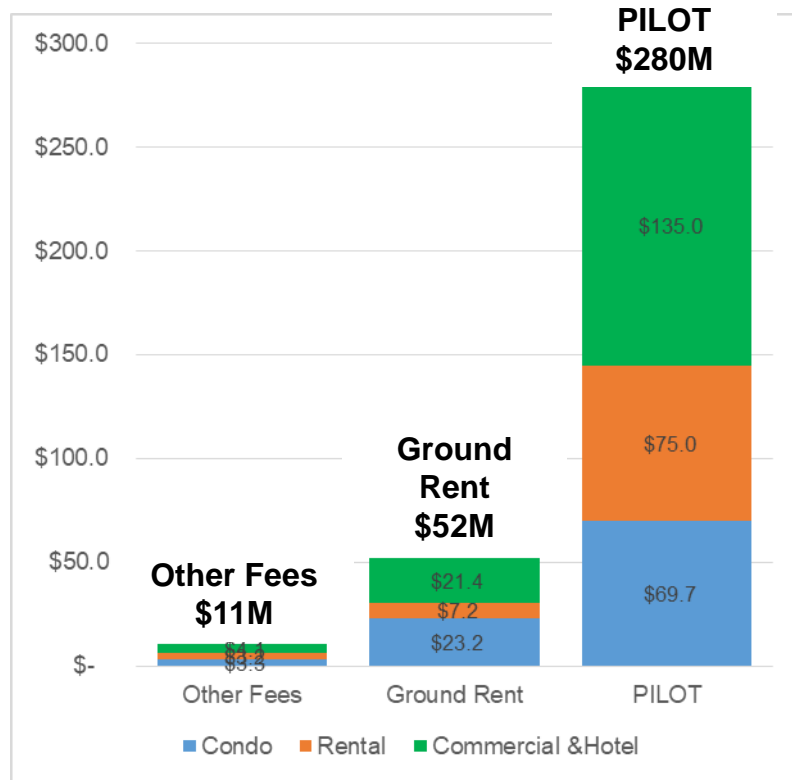
- Condo Ground Rent Overview
- Current Ground Rent Analyses
- Valuing Ground Rent
- Ground Rent Relief
- Next Steps

Ground Rent Overview

- BPC has 30 residential buildings including 12 rentals and 18 condominiums – all with ground rent resets.
 - Note, Liberty Luxe and Liberty Green are technically condos but operate as rentals (and thus counted in the 12)
- All of the condominium buildings have ground rent resets as part of the existing leases for each building.
- BPCA is open to discussing a modification of the existing resets, but any resulting change must be fiscally responsible.
- Any changes are also subject to all required legal approvals, consents, and notifications.
- BPCA has addressed several ground rent resets for 13 condominium buildings in the past – all of which were agreed to by the condominium boards.

BPCA Funding Framework Reminder*

Collected by BPCA



Utilized by BPCA

BPCA:
Operating costs
 + *Capital costs*
 + *Debt service*

Distributed to NYC/NYS**

NYC
 General Fund

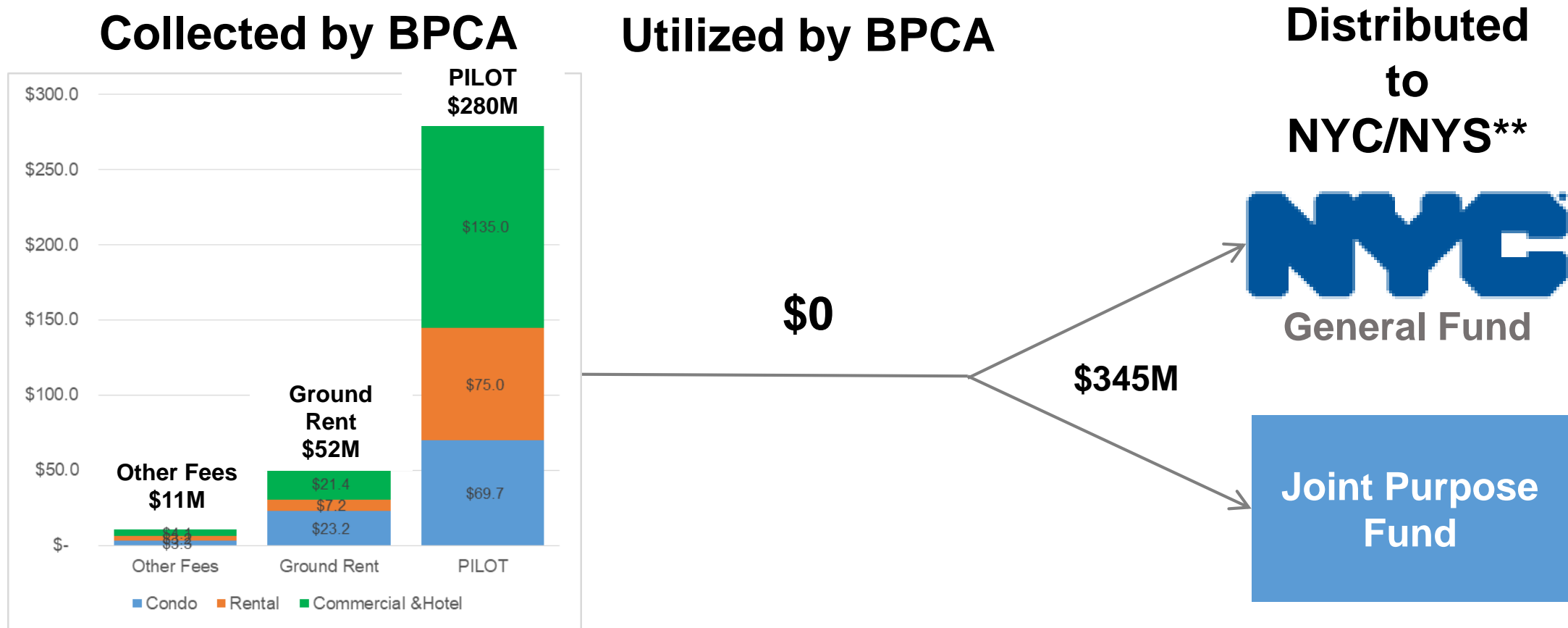
\$210M

Joint Purpose Fund

*BPCA FY2023 budget. Graphic for illustrative purposes only. Does not include approximately \$2M from other revenue sources.

**Pro rata based on % of revenues from PILOT (NYC) and ground rent (joint purpose fund).

BPCA Funding Framework Reminder*

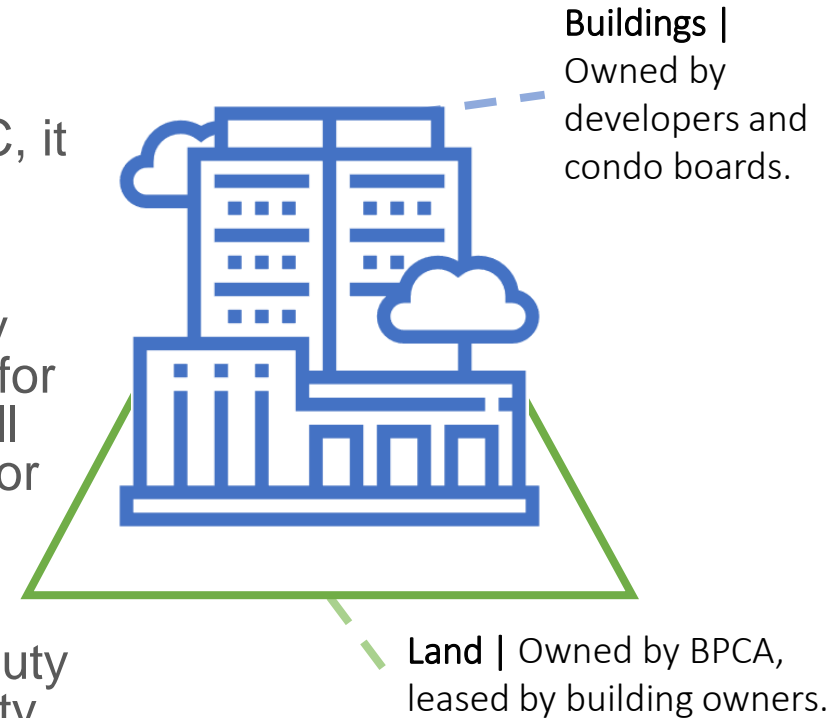


*BPCA FY2023 budget. Graphic for illustrative purposes only. Does not include approximately \$2M from other revenue sources.

**Pro rata based on % of revenues from PILOT (NYC) and ground rent (joint purpose fund).

Ground Rent Explainer

- Homeowners pay for the land they live on either through purchasing it outright (and factoring it into the price) or renting it. In BPC, it is the latter.
- BPCA owns the land underlying all of Battery Park City. Land is leased to building owners for development and ongoing management of all buildings. Ground rent compensates BPCA for the value of the underlying land.
- As a public authority, BPCA has a fiduciary duty to receive an appropriate value for its property, a public asset, while maintaining the neighborhood for residents, visitors, workers, and students.



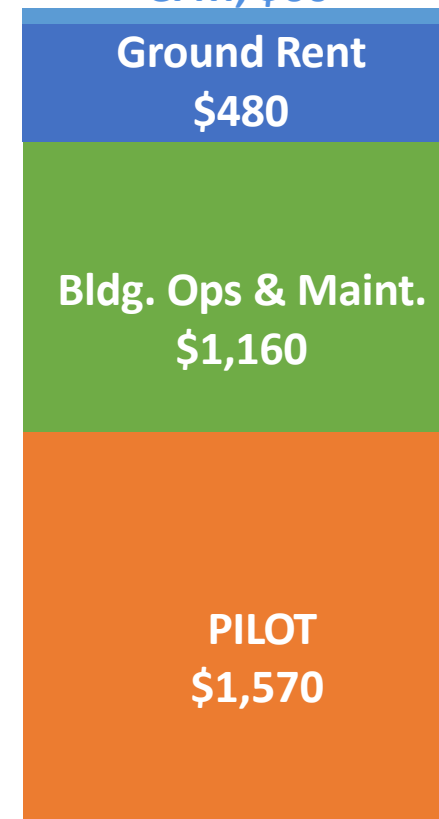
Ground Rent Analysis

- The average BPCA condo owner paid \$480 in ground rent in 2021 out of ~\$3,270 in monthly common charges, the bulk of which is PILOT (real estate taxes set by the City of New York) and building operations and maintenance.

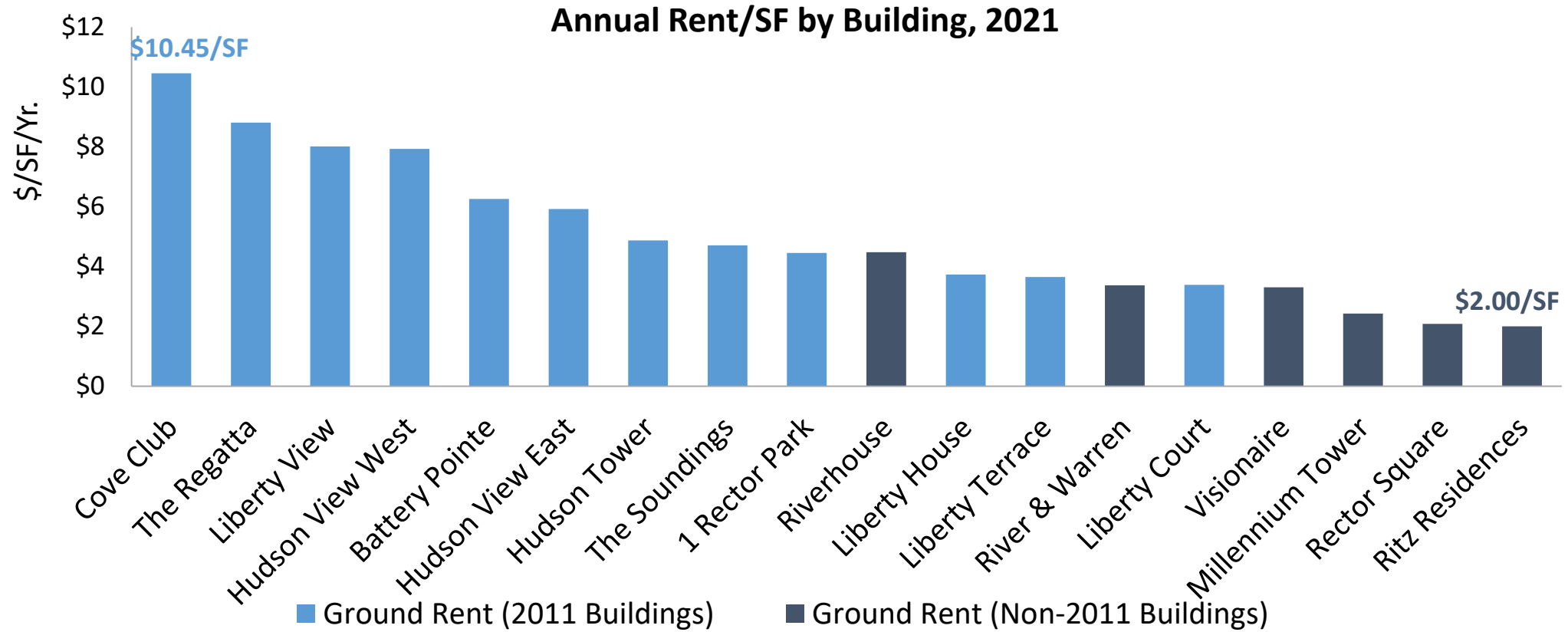
Monthly Common Charge.

Est. BPC Unit Avg.

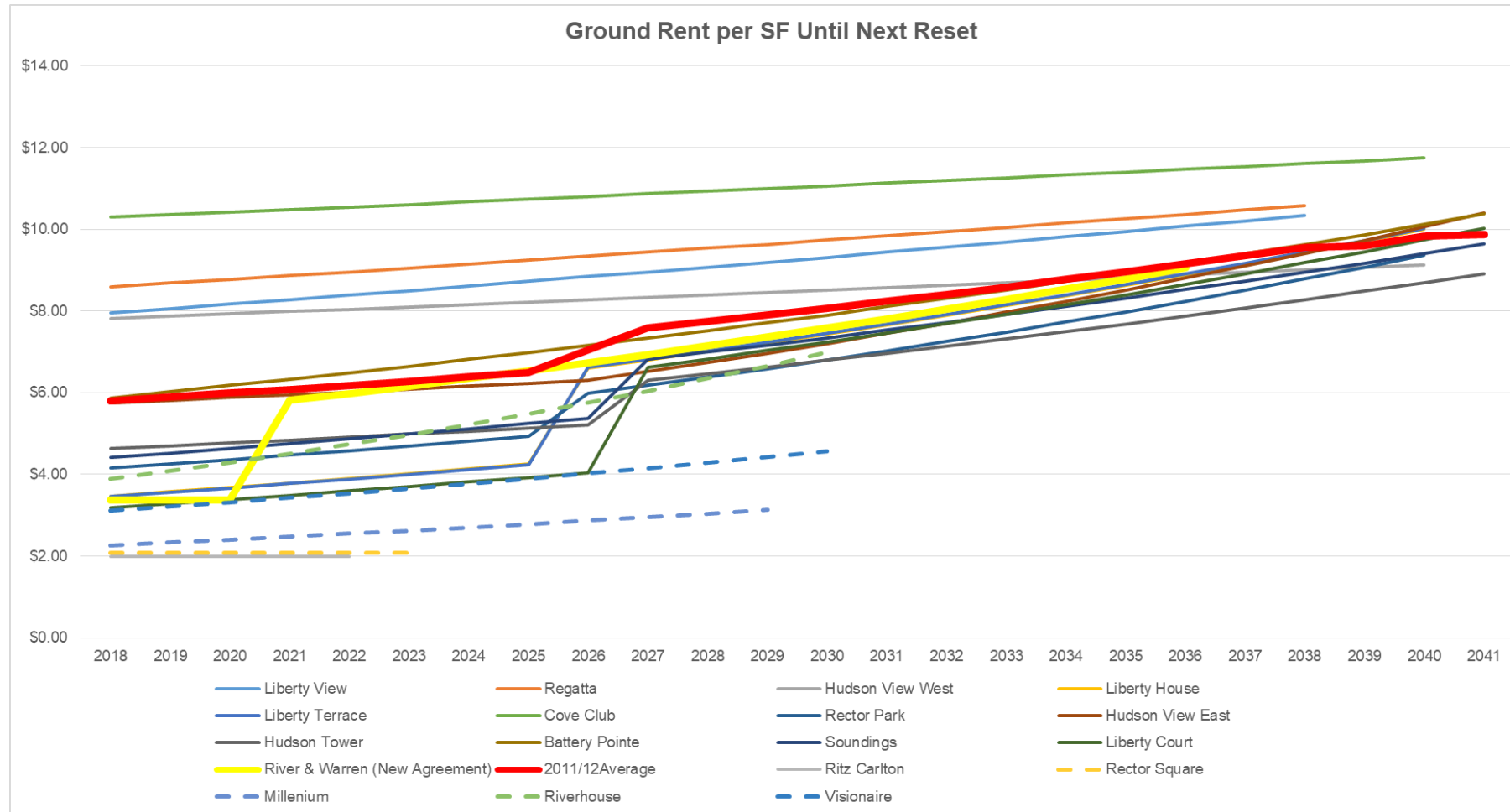
CFM, \$60



2021 Ground Rent Varies



Ground Rents Align More Closely By 2038 for 2011 Buildings



"2011 Buildings" refer to the 12 buildings who negotiated a new rent schedule for two reset periods in 2011/12.

Distinction: Near Term Increases

- 6 of the 2011/12 buildings have interim step-ups (NOT FMV resets) as noted below
- Three of the condo buildings have steps ups greater than 50%
- These step ups take place in 2026 and 2027 and were agreed upon by the Coalition in 2011/12
- The step ups help in bringing buildings with very low ground rent into alignment with the others (refer to slide 9) and so the Authority will not reopen the 2011/12 agreement

Building	Year of Step Up	Initial Ground Rent	New Ground Rent	Increase %
Liberty Court	2027	4.04	6.63	64.1%
Liberty Terrace	2026	4.25	6.63	56.0%
Liberty House	2026	4.27	6.61	54.8%
Soundings	2027	5.37	6.83	27.2%
Hudson Tower	2027	5.21	6.31	21.1%
1 Rector Park	2026	4.94	5.98	21.1%

Valuing Ground Rent

BPCA seeks to establish an objective market value for ground rent. This involves understanding how current leases relate to potential market-rate terms for a condo building ground lease if it were executed today.

- The existing **6% FMV resets are significant** and uncertain.
- For this reason, recent market ground leases for rental buildings **avoid land-based resets** and instead **adjust rents for building performance** (NOI, EGI, etc.).
- Valuing ground leases for condo buildings poses a challenge because
 - 1) there are **limited comparable ground leases** and
 - 2) condo owners, unlike rental owners, typically **do not capture market value until unit sale**.

Valuing Ground Rent

- BPCA is studying the potential range of ground rents that could result from applying a “rental equivalent” approach to the condo ground leases.
 - Consistent with market practices, a percentage of the estimated net operating income, is taken – approximately 30%, or a percentage of the projected gross income – approximately 20%.
 - For initial estimates, income was derived from nearly 2,000 rental listings from all BPC condo buildings and estimated typical expenses from BPC rental buildings.
- This approach is supported for a few reasons:
 - It aligns with “**rental-equivalent**” **valuation methods** used by condo building appraisers (and DOF),
 - It accounts for the **actual market value** earned by the existing buildings through rentals, and
 - A significant share of **condo units in BPC are already rented** on the open market.

BPCA Approach to Condo Ground Rent Resets

Basic Principles:

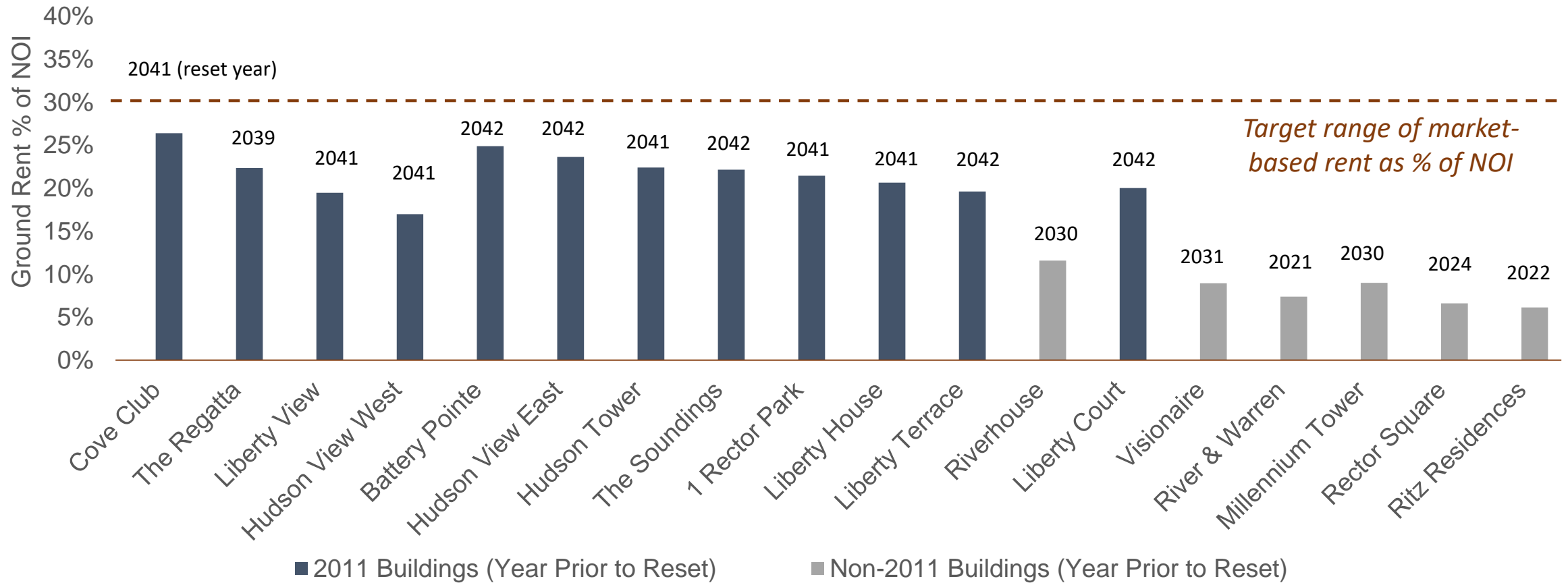
- BPCA's goals for all condo buildings are to:
 - Provide economic stability to homeowners through a predictable ground rent schedule (versus the unpredictable FMV-driven ground rent reset terms).
 - Ensure BPCA participation in the enhanced value of the underlying land through the ground lease.
 - Reduce the disparities in ground rent per square foot across buildings over time.

Two-Stage Strategy:

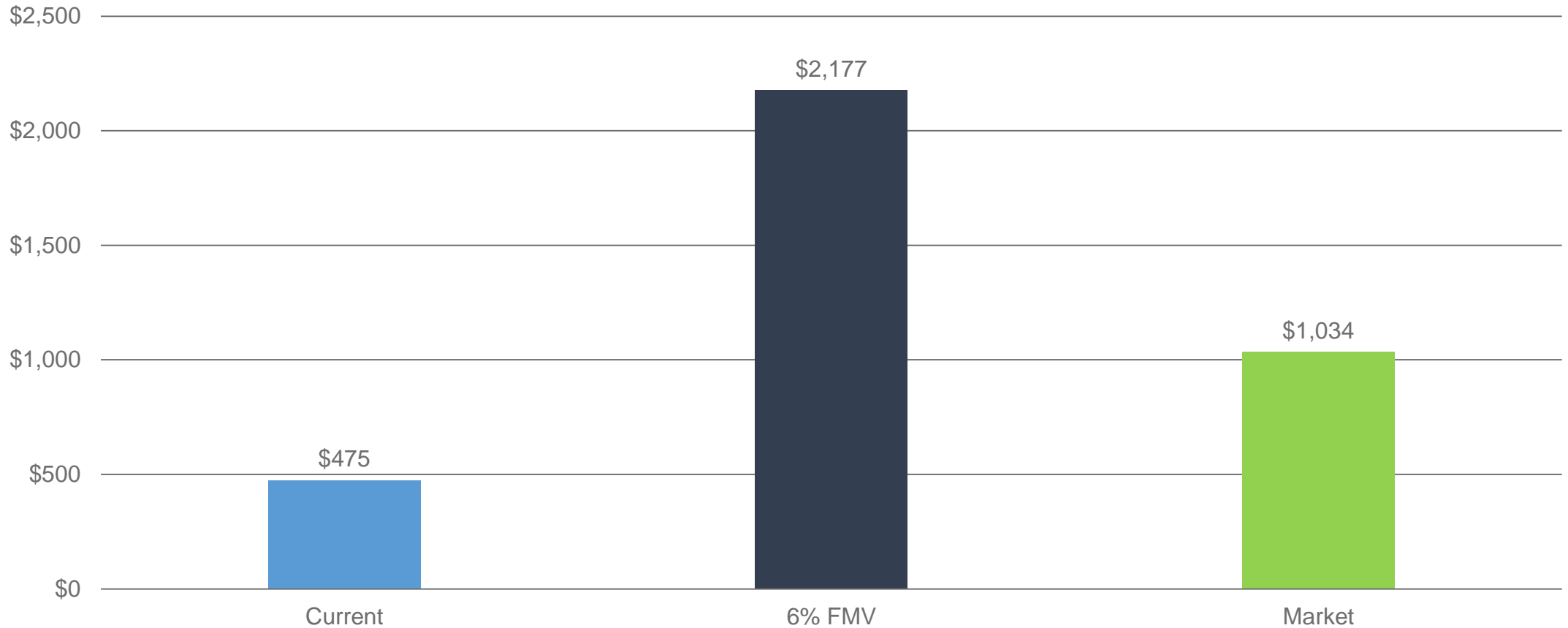
1. Align the 5 remaining non-2011 buildings more closely with the 2011 buildings in terms of rent. **This was achieved in 2022 with River & Warren.**
2. Respect the 2011-2012 agreements and establish a consistent framework in the future for all buildings.

Rental-Equivalent Condo Valuation Analysis

Existing Lease Ground Rent as % Est. NOI, Year Prior to Reset



Average 2022 Monthly Unit Ground Rent Scenario Estimates



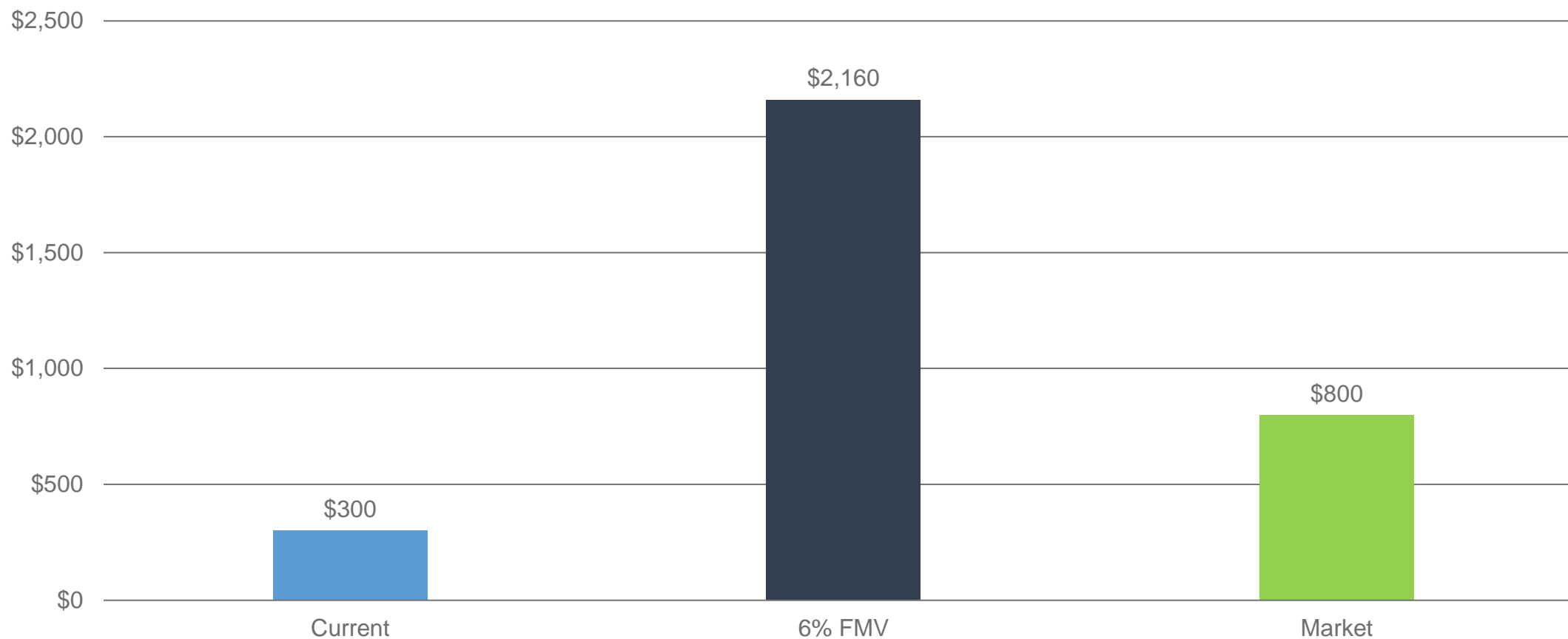
**Based on a range of comparable land sales (inflation escalated)*

***Based on preliminary market estimate*



**Battery Park
City Authority**

Liberty Court - 2021



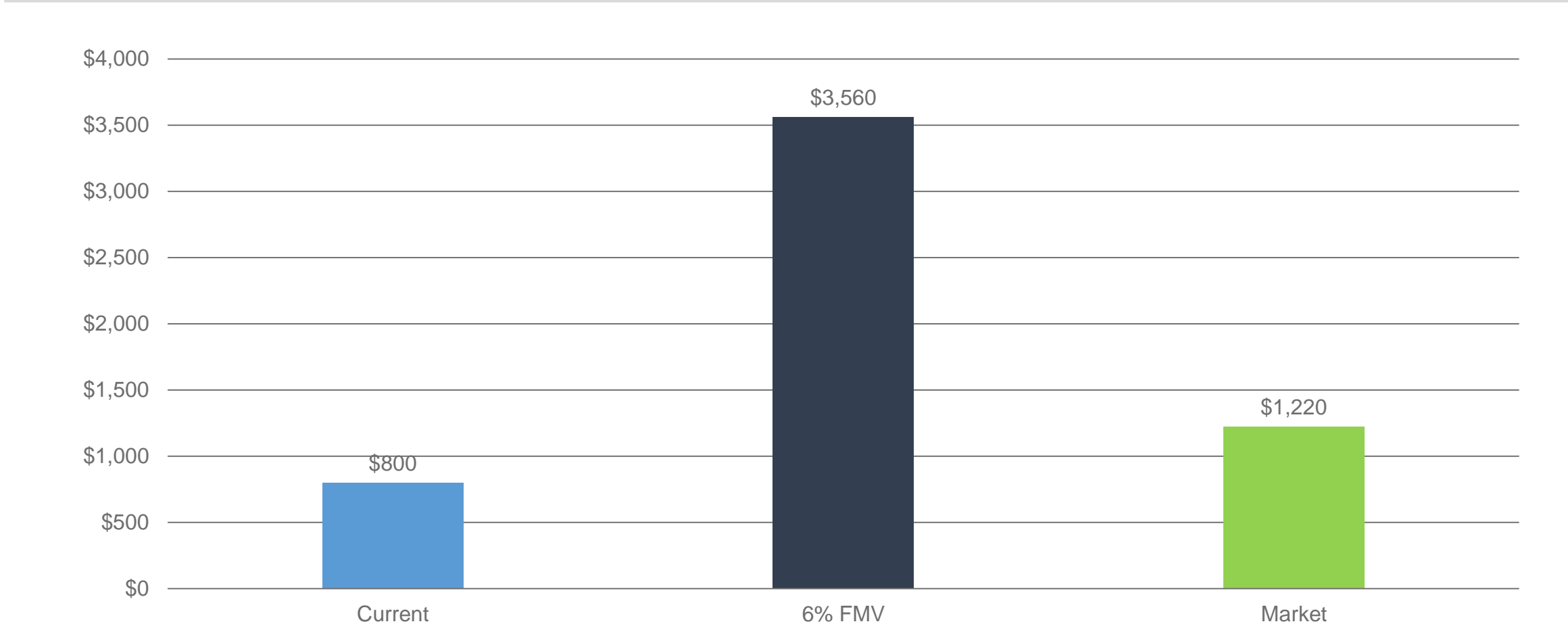
**Based on a range of comparable land sales (inflation escalated)*

***Based on preliminary market estimate*



**Battery Park
City Authority**

Liberty Court - 2038



**Based on a range of comparable land sales (inflation escalated)*

***Based on preliminary market estimate*

Ground Rent Comparison

- Comparing current rent, market estimates, and the contractual reset value highlights several findings:
 1. The 6% FMV resets in the existing leases would trigger significant increases in ground rent and common charges.
 2. Ground rents for the 2011 buildings will approach market-based levels after the upcoming step-ups.
 3. Ground rents for non-2011 buildings remain well below market-based levels until their next reset dates and so their rent must then be increased.
 4. BPCA's proposed framework aligns is a fiscally responsible alternative to the rent reset formulas

Rent Reset Proposals

- Condo Coalition

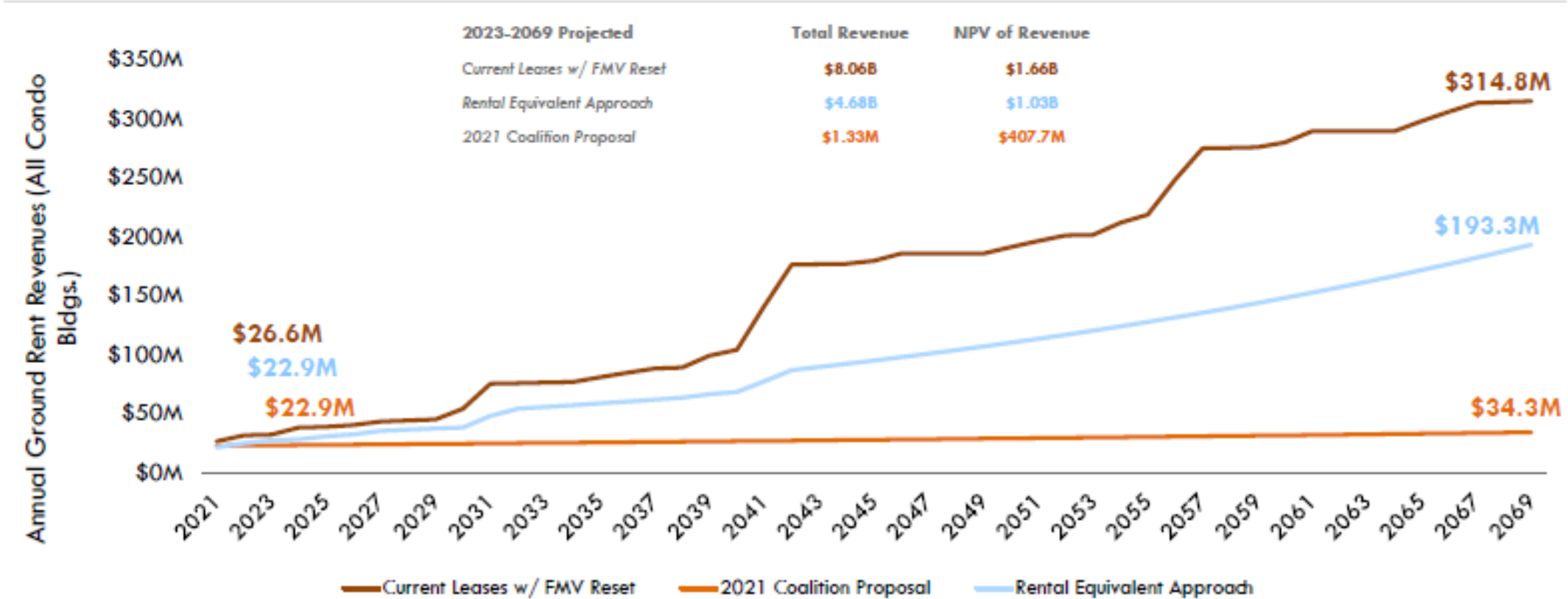
1. Replace the remaining 6% FMV resets in the existing leases
2. Eliminate all interim step-ups in 2011 agreement
3. For 15 of the condo buildings, limit annual increases to 0.5% to 1%, depending on the building starting in 2022
4. For 3 of the condo buildings, increase ground rent by about 100% with 1% annual increases thereafter

- BPCA

1. Replace the remaining 6% FMV resets in the existing leases
2. Maintain 2011 agreement
3. For the 5 buildings not part of the 2011 agreement, align with average rent PSF of the other buildings – as done with River & Warren
4. For all buildings, replace next rent reset after 2035) with rental-equivalent value, 3% annual increases, and CPI adjustment every 10 years
5. Introduce an affordability component to limit increases for existing tenants with a demonstrated need (e.g., <130 AMI)

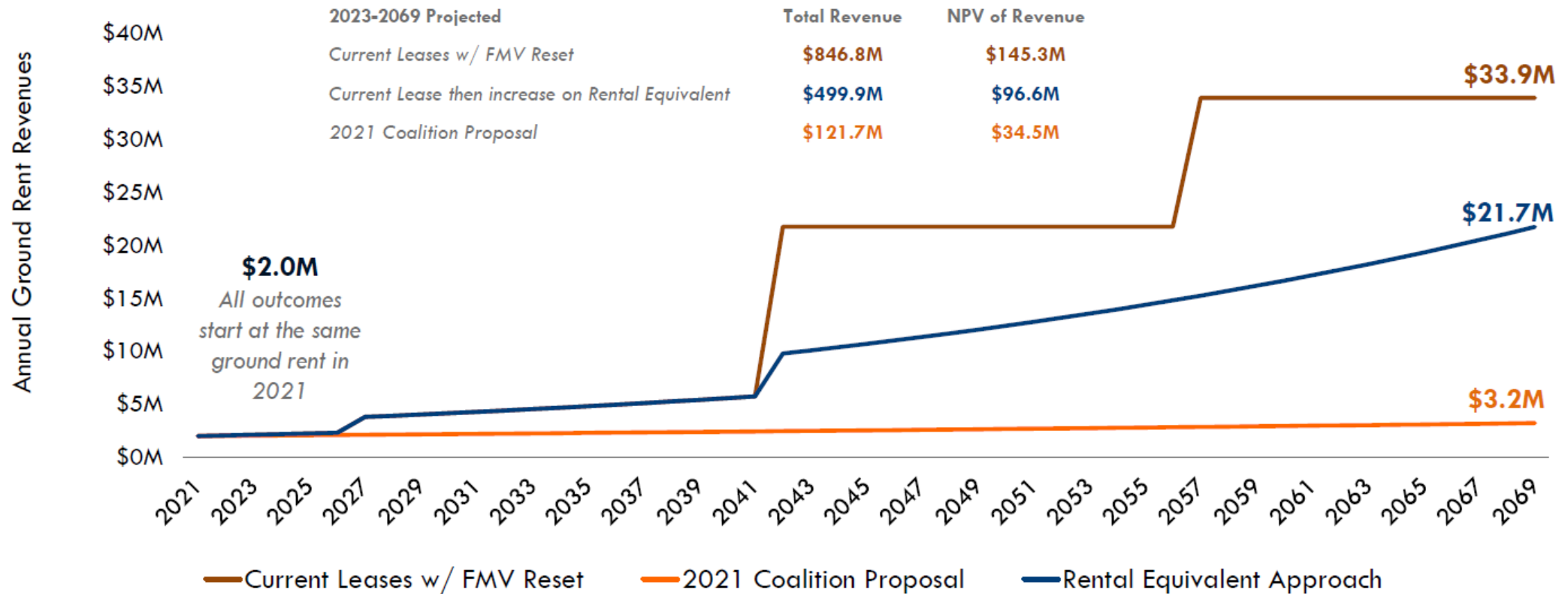
Ground Rent Revenue Projections, All 18 Condo Buildings

Coalition's 2021 Proposal Projections Compared to the Other Potential Outcomes



Note: FMV Reset projections assume a land value of \$350/ SF.
NPV calculated using 6% discount rate

Ground Rent Revenue Projections, Liberty Court



Note: FMV Reset projections assume a land value of \$350/ SF.
NPV calculated using 6% discount rate

Potential Scenarios for Smoothing of Step-Up

Liberty Court - Lease Schedules

Discount Rate

6%

	NPV	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Current Lease	\$44,119,327	\$2,187,000	\$2,253,000	\$2,320,000	\$2,390,000	\$3,919,000	\$4,037,000	\$4,158,000	\$4,283,000	\$4,411,000	\$4,544,000
		3.0%	3.0%	3.0%	3.0%	64.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Alternative 1: 30% Reset, Maintain NPV of ground rent over term	\$44,119,327	\$2,187,000	\$2,253,000	\$2,320,000	\$2,390,000	\$3,107,000	\$3,311,671	\$3,529,825	\$3,762,350	\$4,010,192	\$4,274,360
		3.0%	3.0%	3.0%	3.0%	30.0%	6.6%	6.6%	6.6%	6.6%	6.6%
Alternative 2: Maintain NPV, equal increases remainder of lease	\$44,119,327	\$2,187,000	\$2,253,000	\$2,320,000	\$2,390,000	\$2,608,930	\$2,847,915	\$3,108,791	\$3,393,564	\$3,704,423	\$4,043,758
		3.0%	3.0%	3.0%	3.0%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%

Liberty Court - Lease Schedules

Discount Rate

	NPV	2033	2034	2035	2036	2037	2038	2039	2040	2041
Current Lease	\$44,119,327	\$4,680,000	\$4,820,000	\$4,965,000	\$5,114,000	\$5,267,000	\$5,425,000	\$5,588,000	\$5,756,000	\$5,928,000
		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Alternative 1: 30% Reset, Maintain NPV of ground rent over term	\$44,119,327	\$4,555,931	\$4,856,049	\$5,175,938	\$5,516,899	\$5,880,321	\$6,267,683	\$6,680,562	\$7,120,639	\$7,589,706
		6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
Alternative 2: Maintain NPV, equal increases remainder of lease	\$44,119,327	\$4,414,176	\$4,818,526	\$5,259,915	\$5,741,737	\$6,267,695	\$6,841,831	\$7,468,560	\$8,152,700	\$8,899,508
		9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%

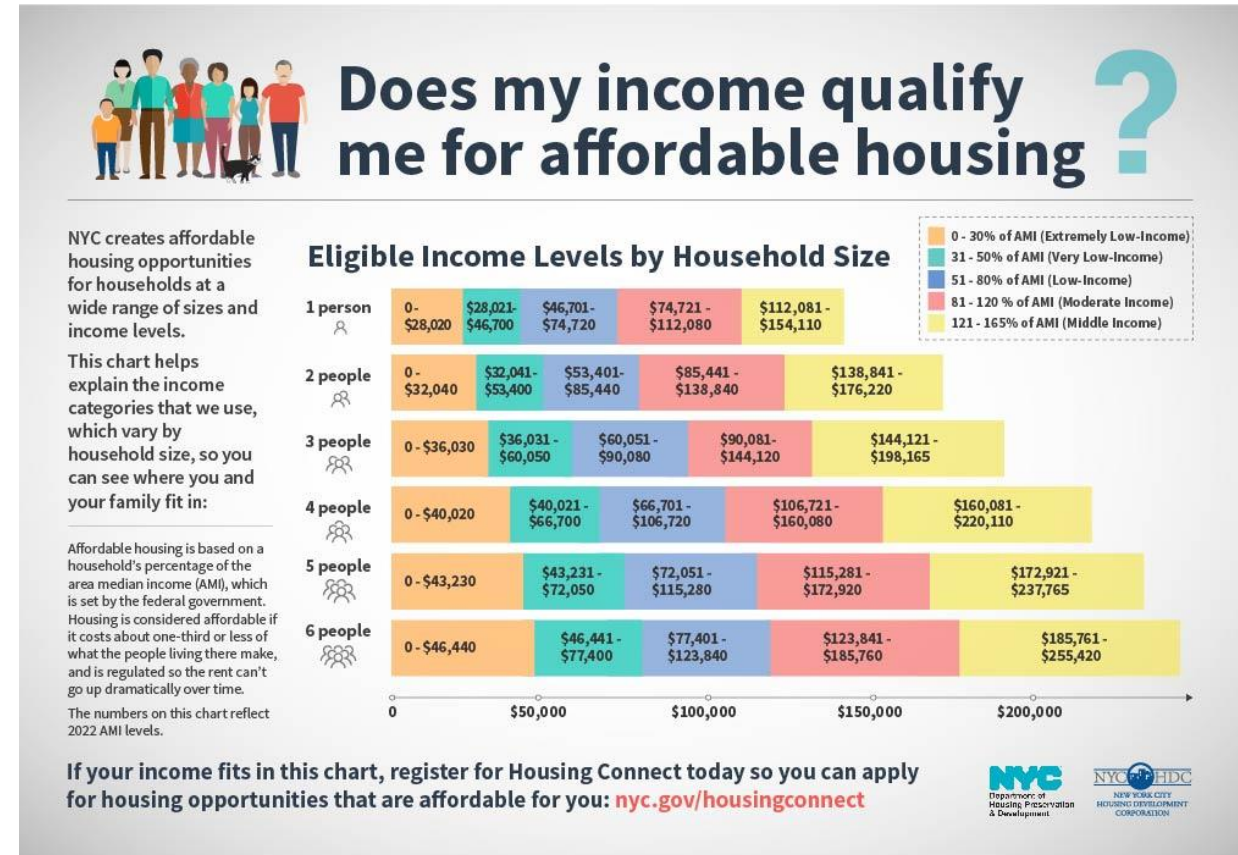
Note – These are preliminary estimates only



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Ground Rent Relief

- The Authority is exploring options through which eligible owners would be granted ground rent relief. Examples might include:
 - Discount/abatement on ground rent based on verified ability to pay
 - Deferral of a portion of ground rent to be collected at the time of sale
 - Use of transaction fees to enable lower increases on ground rent.
- Develop operational framework with NY State's Department of Homes and Community Renewal (state affordable housing agency)
 - Income testing requirements and process
 - Determine qualifying AMI level



Next Steps

- Bring remaining 5 condos into alignment with 2011/12 agreement and River & Warren
 - Ritz condos must negotiate their 2022 reset promptly
 - Other 4 buildings may work with Authority now in shifting their first reset period to these terms; otherwise can wait until closer to their next reset (priority 225 Rector – 2024 reset)
- Initiate discussions with other condos interested in negotiating based on the Authority's market-based framework
 - Issue new data request - confirm sublets, apartment mix and other info needed
 - BPCA calculates estimated ground rent and revise as needed based on relevant information
 - BPCA negotiates with condo boards
- Develop ground rent relief program

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Thank you

